

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit Canada Manufacturing PMI™

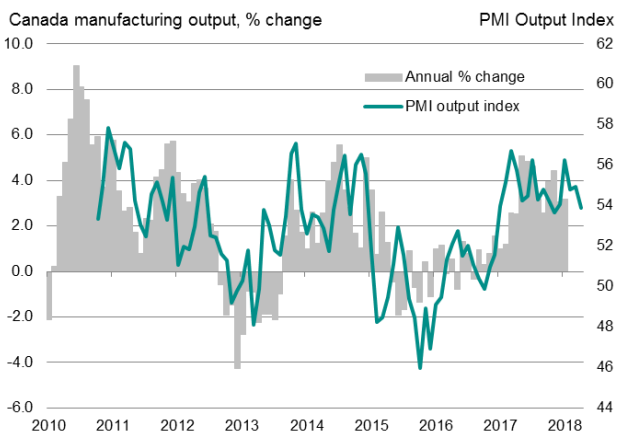
Robust manufacturing performance in April, but inflationary pressures intensify

Key findings:

- Strong new business and employment growth
- Output growth held back by capacity constraints and supplier delays in April
- Factory gate price inflation hits seven-year high

Data collected April 12-24

IHS Markit Canada Manufacturing PMI



Sources: IHS Markit, StatCan.

April data indicated a positive month overall for the Canadian manufacturing sector, helped by the fastest rise in incoming new work since the start of the year. Export demand picked up markedly, with the latest rise in new orders from abroad the strongest since March 2011.

However, there were signs that sales volumes had outstripped production capacity in April, which resulted in a further accumulation of backlogs of work. Supply chain disruptions also held back output growth, with the latest deterioration in supplier performance the most marked since the survey began in October 2010.

The headline seasonally adjusted **IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI™)** posted 55.5 in April, little-changed from 55.7 in March and well above the neutral 50.0 threshold. Although the lowest index reading so far in 2018, the latest PMI figure still signalled a strong overall improvement in manufacturing sector business conditions.

The main drag on the headline index was the weakest rise in production volumes for five months, which survey respondents partly attributed to capacity constraints and supply chain disruption.

Stretched operating capacity reflected a combination of strong client demand and longer delivery times from vendors in April. The latest rise in new orders was the fastest for three months, helped by an accelerated upturn in export demand. Anecdotal evidence suggested that an improving global economic backdrop had helped to lift new export order growth to its sharpest for almost seven years.

Canadian manufacturers indicated that supplier lead-times lengthened to the greatest degree since the survey began in late-2010. Worsening vendor performance was attributed to a range of factors, including manufacturing capacity constraints (especially at steel mills), shipping delays for materials imported from Asia and ongoing issues with truck driver availability in the U.S.

Manufacturing companies reported a further robust increase in staff recruitment in April, linked to rising workloads and long-term efforts to boost operating capacity. Moreover, survey respondents indicated that business optimism regarding future growth prospects was the strongest for 12 months in April.

Meanwhile, higher raw material prices, particularly for steel, placed upward pressure on input costs. The latest increase in overall cost burdens was the steepest since March 2014. Sharply rising operating expenses and resilient demand conditions led to the fastest increase in average prices charged by manufacturers for exactly seven years.

Regional highlights:

- All regions experienced an improvement in manufacturing business conditions during April
- Quebec was the best performing area, with overall growth the fastest since May 2012
- Quebec also saw the strongest new export sales growth
- Alberta & BC posted the fastest rate of manufacturing sector job creation

Comment:

Tim Moore, Associate Director at survey compilers IHS Markit:

“A healthy flow of new orders and an upturn in business optimism to its highest for 12 months meant that Canadian manufacturers remained fully in expansion mode during April.

“April data revealed that unfinished work increased at one of the fastest rates since the survey began in 2010, reflecting constraints on production capacity and ongoing supply chain issues.

“In particular, longer-lead times for materials were linked to shortages of truck drivers in the U.S. and delays at ports in China following the implementation of stricter environmental policies.

“Manufacturers responded to constraints on production schedules by boosting employment and building up their stocks of inputs in April.

“Strong demand for raw materials resulted in the fastest rise in input costs for over four years, while the robust demand backdrop enabled manufacturers to pass on prices at the factory gate at the fastest pace since 2011.”

Christian Buhagiar, President and CEO, SCMA

“The manufacturing sector continues to show robust growth momentum, with improving demand conditions seen in both domestic and external markets during April. Stronger global economic conditions underpinned the fastest rise in new export sales recorded since March 2011.

“Supply chain pressures and high levels of capacity utilization were the main factors holding back manufacturing production growth in April. The latest downturn in supplier performance was the greatest reported for at least seven-and-a-half years.

“Longer delivery times for raw materials were attributed to international shipping delays, issues around U.S. freight capacity and strong demand for key inputs such as steel.

“Inflation pressures continued to build in the manufacturing sector, reflecting a combination of rising demand and higher operating expenses. April data suggested that manufacturers have started to recover some of their pricing power, with average output charges rising to the largest extent for seven years.”

-Ends-

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Note to Editors:

The IHS Markit Canada Manufacturing PMI™ Report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by company workforce size and by Standard Industrial Classification (SIC) group, based on industry contribution to Canada GDP.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. The IHS Markit Canada Manufacturing Purchasing Managers' Index® (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit does not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

About Supply Chain Management Association

The Supply Chain Management Association (SCMA) is Canada's largest association for supply chain management professionals. We represent 7,500 members as well as the wider profession working in roles that cover sourcing, procurement, logistics, inventory, and contract management. SCMA sets the standards for excellence and ethics, and is the principal source of professional development and accreditation in supply chain management in Canada. www.scma.com.

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